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**Título: “La integración económica centroamericana: introducción al estudio de la unión aduanera y de las relaciones con la Unión Europea”**

*Resumen:*

Este documento de trabajo se centra en el estudio de las características y desafíos del proceso de integración centroamericana y analiza la situación y las alternativas de la unión aduanera existente en la región. También aborda las relaciones exteriores de Centro América, en particular con la Unión Europea (UE), los Estados Unidos (CAFTA) y México (Plan Puebla Panamá). Como ampliación del ámbito analítico tratado, las relaciones de Centro América con la UE se han contemplado desde el contexto general de las relaciones UE-América Latina (Diálogo del Grupo de Río).

El documento enfatiza la importancia de reforzar la integración económica y mejorar las relaciones exteriores de las naciones centroamericanas. Por ello, se sugiere el establecimiento de un presupuesto común en la región, dotado de un sistema de ingresos basado en contribuciones nacionales y en los recursos procedentes de la unión aduanera, y provisto de un mecanismo de gasto capaz desarrollar proyectos estructurales comunes. Ese presupuesto común reforzaría el proceso de integración existente, mejoraría la inserción internacional de los países de Centro América e impulsaría el desarrollo económico y social en la región.

**Working Paper**  
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“Central American Economic Integration: An Introduction to the Study  
of Customs Union and Relations with the European Union”

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**“Central American Economic Integration: An Introduction to the Study of Customs Union and Relations with the European Union”**

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**Abstract**

This Working Paper focuses on the characteristics and challenges of the process of economic integration in Central America and it analyses the situation and alternatives of the existing customs union in the region. It also refers to the external relations of Central America, in particular with the European Union (EU), the USA (CAFTA) and Mexico (Plan Puebla Panama). In order to extend the analytical scope, Central American relations with the EU have been considered in the general context of the relations between Latin America and the EU (Group of Rio Dialogue).

The Paper emphasizes the importance of strengthening economic integration and improving external relations of Central American countries. For this reasons, I suggest to establish a common budget in the region, with a revenue system based on national contributions and on the customs union incomes and an expenditure mechanism able to carry out structural projects. A common budget will reinforce the existing process of integration, will contribute to the improvement of the international insertion of Central American countries and will boost economic social development in the region.

## **1. Introduction**

This Working Paper contains an introductory study on the process of economic integration in Central America, by focusing on its characteristics and challenges. In particular, it refers to three existing possibilities for the future development of the region: a) the *international cooperation option*, as is the case of some regional initiatives of development like the so-called Plan Puebla Panamá (PPP); b) *the free trade option*, as is the example of the Free Trade Agreement signed between the USA and Central American countries (CAFTA); c) *the integrationist option*, by strengthening the mechanisms of regional integration in Central America.

The integrationist option implies the creation of a common budget in the region, based on common systems of revenue and expenditures. The revenue system would receive funds from national contributions and the customs union earnings. The expenditure mechanism should be able to carry out economic and social projects in favor of development. To this extent, the European experience in dealing with structural funds and budgetary matters could be certainly useful in the region. Nevertheless, as the Paper analyses, the EU aid to Central America (and, more extensively, to Latin American countries) has been not efficient enough in terms of contributing to the improvement of the living conditions of the population.

After this introduction, Section 2 refers to the situation and alternatives of customs union and economic integration in Central American region. It begins with some conceptual and historic remarks, and focuses in the external and internal implications of Central American customs union process. It also analyses the main alternatives to Central American economic integration, as well as the role of the EU in the region, including references to the general context of relations between the EU and Latin American countries. Data concerning Central American and Latin American external trade with the EU are presented at the end of Section 2. The Paper finishes with some final remarks and conclusions, included in Section 3.

I wish to express my gratitude to Christine Hunefeldt, Director of the Center for Iberian and Latin American Studies (CILAS). In my opinion, her enthusiasm and vision of the future constitutes a valuable contribution to the University of California San Diego (UCSD) and to the common projects existing with my University (Universidad Complutense de Madrid, UCM). I would also like to express my gratitude to the UCM, for the grant (Beca Del Amo) that allowed me to stay at CILAS. It was the starting point of this Paper (which belongs to a wider research project, still in progress). In particular, I want to thank Nelson Altamirano, from CILAS, for his kind and efficient comments on the first version of the Paper, as well as Guillermo Vázquez, from UCM, for his help in the preparation of the basic data of this Paper. Nevertheless, the complete responsibility for any error or lack of information is exclusively mine.

## **2. Central American economic integration: some implications of the customs union**

This Paper focuses on the economic integration in Central America (CA). It analyses the situation and alternatives existing for the region of CA from a double perspective: internal and external. From the *internal point of view*, the Paper refers to the implications of the customs union and the possibility of creating a common budget for CA countries in order to contribute to the economic and social development of the countries of the region. From the *external point of view*, the Paper includes several references to the relations with the USA, and the neighboring countries, as well as relations between CA and the EU, considered as a specific part of the general framework of the EU-Latin American relations (now called the Group of Rio Dialogue).

This Section of the Paper firstly presents some notes on the institutional and macroeconomic situation of the region. It also refers to the progress in regional integration and to the role of external aid received by CA countries. Finally, three main alternatives for the future of CA are considered here. The first one concerns the sphere of international cooperation mechanisms; such is the case of the Plan Puebla Panamá (PPP). The second one refers to the philosophy of free trade agreements. This is the case of the free trade agreement between CA countries and the USA, better known as CAFTA. The third one belongs to the scope of international economic integration.

This third option corresponds to the situation of CA nations, which try to set up a common economic space, provided by common policies and institutions. In real experiences of *economic integration* certain levels of shared sovereignty are required. That constitutes a decisive difference with respect to the projects of *international cooperation* and the initiatives of *free trade agreements*. The CA region is moving from an incomplete customs union to a wider and deeper project of economic integration. In my opinion, that is the best alternative to improve the standard of living of the population, as well as the insertion of CA in the world economy. It is also a good way to avoid the difficulties that CAFTA could create in CA countries.

Obviously, relations with the USA are a priority for the CA region. It makes no sense to ignore that. On the contrary, to corroborate it, basic statistical data on the external trade of CA countries are presented in sub-section 3.9 and Annex. Data confirms the importance of intra-regional trade in CA, as well as the deterioration of CA exchanges with the EU. Concerning the EU relationship with CA, there seems to be a kind of “divorce” between political wishes and real facts. In fact, the EU considers Latin America (and CA) as a strategic region for its external relations, but real economic exchanges do not correspond with those official declarations.

A similar “split” between political declarations and economic evidences should be certainly negative for the future of the CA process of integration. CA countries begun its economic integration three decades ago, but they still remain in the “step” of completing their customs union. In terms of trade policies, empirical data confirms the existence of a notable progress in exchanges between CA countries (intra-regional trade). Nevertheless, international statistics do not corroborate the same improvement in

trade with the rest of the world (external trade), particularly in the case of exchanges with the EU.

According to that, and taking into consideration the EU-Latin American purposes of improving their mutual relations, CA countries should ask for better cooperation and more effective trade openness from the EU. Simultaneously, CA countries must work in order to complete the customs union, finishing with its main fault to the moment: the lack of an entire (authentic) common external tariff. Beyond the economic cooperation (always needed), the EU could aid CA region by teaching its own experiences in economic integration, budgetary matters and dealing with structural financial funds.

### 2.1. Institutional approach: Central American integration and relations with the EU

Internal conflicts and disputes were usual in several countries of CA during the 1970's and 1980's. The region suffered economic and social damage and there was an important paralysis of the process of economic integration. After Esquipulas II Peace Accord, the consolidation of democratic processes created a new context. Nevertheless, economic and political progresses are still fragile. In fact, CA countries suffer severe social and economic problems. They have to face the reduction of poverty and social inequalities. They must look for economic growth and sustainable human development. They ought to reduce their environmental vulnerability, taking into account that CA is a very exposed region to natural disasters (i.e. Hurricane Mitch in 1998 and El Salvador earthquakes in 2001). In addition, they have to deal with the problems of globalization from their singular position of under-development countries, suffering deterioration in terms of international trade and high external debt.

According to these challenges, a more economically integrated region seems to light the right path for the development of these small countries, although they are usually competitors in the same markets of exports. They need an increase in external trade, as well as important progress in their levels of industrialization. In this situation, integration can improve the profits obtained by external trade and industrialization. Economic integration emerges as a necessary condition to improve the standard of living of the population and even to reinforce their democratic systems. There exist other possibilities that will be mentioned here. Probably, most of the possible options to CA development can work together, but they will run better if economic integration is going on in the region. Closer integration is not an obstacle to CA development; on the contrary, it could boost economic growth, as well as reinforce other initiatives in favor of the social and economic development of the countries of the region.

As a starting point, it is necessary to offer a brief definition of economic integration. I consider *economic integration* as a process oriented toward creating bigger spaces from separate individual countries. It is not difficult to explain it using one of the most common definitions of the general phenomenon of "integration": it consists of the formation of a whole from different elements<sup>1</sup>. The central point refers to the mechanisms implemented to this target, particularly in the case of economic integration experiences. There exist two main kinds of mechanism of integration. On one hand: reducing tariffs and liberalizing exchanges, usually known as "negative integration". On

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<sup>1</sup> See references to international cooperation and economic integration in Nieto (2005).

the other hand: setting up common policies or even common institutions, usually called positive integration. Both mechanisms can be complementary, instead of exclusive. As the EU exemplified, positive and negative integration can work together for deeper and balanced economic, social and political integration.

In this Paper, economic integration will be compared with international cooperation. Then, a definition of international cooperation is also needed. I consider *international cooperation* as initiatives of collaboration between countries without having to share between them any kind of sovereignty in order to implement the initiatives adopted, which means that the capacity of decision remains in each national government. Therefore, any involved nation could refuse its links with the established mechanisms of international cooperation. Individual countries are only tied to international agreements if they want to implement common decisions adopted. This is the case of the Plan Puebla Panama, a regional project of development in Mexico and Central America, as it will be explained later. This is also the case of the cooperation agreements between CA and the EU, presented in an introductory analytical way in this Paper.

Additionally, we need to expose the main differences between these two initiatives (integration and cooperation) and the specific compromises in the field of free trade agreements adopted by certain countries (as is the case of CA). In my opinion, the category of *free trade agreements* is placed in an inter-medium stage between “international cooperation” and “economic integration”. Nations involved in free trade agreements do not have to share sovereignty, but they agree on the reduction (or the removal) of trade tariffs. Free trade agreements are neither initiatives of cooperation nor mechanisms of economic integration, even if they represent a step in reaching the objectives of integration. There exist several examples of free trade agreements in the American hemisphere. We will mainly refer here to the CAFTA (Central American Free Trade Agreements), signed between the USA and CA countries.

Finally, some ideas should be underlined to refer to the EU role in CA region. It could be understood as a form of “international cooperation”, with several peculiarities due, in particular, to the different level of development between the EU and CA, as well as the geographical distance existing between both areas. As an external observer, the EU has been interested in strengthening relations with CA and has developed several aid programs since the 1980's. The EU has supported efforts of the region to bring peace, consolidate democracy and look for economic and social development. Several European programs of aid and cooperation have been carried out to complement the aims of the governments and people involved in CA integration. Those aid and cooperation programs have been included in the Group of Rio Dialogue since 1999, confirming the priorities of the new framework for the relations between the EU and Latin America, and according to the necessity of improving the position of CA countries in the world system<sup>2</sup>.

Since the first agreement between the EU and CA countries (signed in Luxemburg, in 1985) and the first EU general regulations for reinforcing relations with Latin America (1992), the EU and CA have renewed their mechanisms of cooperation, signing a Regional Strategy Paper (1998) and a program of financial and technical cooperation for

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<sup>2</sup> See an analysis of the EU external relations in Nieto (2001).



the period 2000-2006<sup>3</sup>. Simultaneously, the EU and Latin America have launched the idea of establishing a “strategic association”, based on the *dialogue of the Group of Rio*. In this direction, the Final Declaration of the EU-Latin America Summit of Vienna (May 2006) added a clear reference to the importance of increasing efforts to enhance CA integration<sup>4</sup> as a way to improve economic development and international relations of the region. In an introductory way, I will consider EU-Latin American relations as a general reference in this Paper. The reasons of considering the general framework of European cooperation for Latin America as point of reference is quite simple: Understanding EU-CA relations as a part of EU-Latin American relations will facilitate comparative statements between regions and countries, will provide a better knowledge of European programs of cooperation, and will allow specific proposals for the region.

## 2.2. Central American in the context of relations between the EU and Latin America

Talking about “trade or aid” is always a problematic matter. Both mechanisms are needed in favor of the development of Latin America<sup>5</sup>, as recognized by the new Agenda for EU-Latin America relations, established throughout the last six years. In fact, many of the political and academic debates on the relations between the EU and Latin America have been reduced to the question of whether or not Europe has shown, until now, enough interest in the relations with those countries<sup>6</sup>. To overcome this controversy it is “necessary to assume that the relations between the EU and Latin America are increasingly affected by changes in the world scenario, and therefore, they could not be considered as just bilateral relations”<sup>7</sup>. This perspective allows a new approach to the problems of Latin America and its relations with the EU.

In general terms, reinforce sustainable development constitutes a central objective of the EU development policies. That objective adopts a particular dimension in the case of regional processes of integration between developing countries, because the EU has repeatedly declared its aim to work in favor of economic integration in the world economy. In fact, promoting integration is one of the pillars of the EU’s strategy in the scope of international relations. One clear example of that is provided by the successively Group of Rio Declarations. Since 1999, the Group of Rio Dialogue involves the EU Member States and the main Latin American and Caribbean countries. To the present, four EU-Latin America summits have been concluded: Rio in 1999, Madrid in 2002, Guadalajara in 2004, and Vienna in 2006. The celebration of these summits has stressed the idea of building a strategic association or a bi-regional partnership between the EU and Latin America. As an element of this strategy, the EU and Latin America have insisted in the idea that improving economic development and international relations can be properly reached through economic integration<sup>8</sup>.

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<sup>3</sup> EU (2002b, 2004).

<sup>4</sup> EU (2006b).

<sup>5</sup> In order to simplify, the term Latin America or LA is generally used in this Paper to refer to the group of countries formed by Latin America and the Caribbean. However, to certain extents it will be necessary to specify references to Latin America, the Caribbean, or LA and the Caribbean. CA refers to Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. The EU includes 25 European Member States belonging to the European Union (and 15 Member States before the 2004 enlargement).

<sup>6</sup> ICEI (2005) refers to the situation as a “dialogue between deaf people”.

<sup>7</sup> ICEI (2005).

<sup>8</sup> EU (2006b). These ideas have been reaffirmed in May 2006, despite the political problems emerged between some LA leaders throughout the preparation and the celebration Vienna Summit. For more

According to the studies elaborated for the Summit of Vienna<sup>9</sup>, the pillars of the new *strategic association between the EU and Latin America* can be concentrated in four categories:

- a) To contribute to the development and social cohesion of Latin America. The main international reports show limited advances in reducing poverty and improving employment and inequality in Latin America<sup>10</sup>. The EU tries to collaborate on those objectives as a first responsibility for their strategic relations with Latin America.
- b) To promote greater international autonomy of Latin American countries. That target must contribute to improve the position of Latin America in the world system, and it should be easier to reach by reinforcing the economic integration processes in the region.
- c) To improve the external projection of the EU in Latin America. The EU cannot elude the different crisis that Latin American countries suffer. Some of them are affected by the problems of globalization, while others belong to the sphere of national issues. In both cases, EU aid and cooperation should play an important role.
- d) To succeed in getting the EU and Latin America to act as allies in strategic international issues. As parts of Western Civilization and the global economy, both regions share responsibility in seeking solutions for good governance in their countries and in world relations. That could be reached more effectively by working together.

As a complement to their political, economic and trade relations, the EU and Latin America began to implement cooperation programs in strategic sectors two decades ago. More recently, in the Summit of Madrid (2002) the dialogue EU-Latin America launched two major programs in the key sectors of education and information society (ALBAN and @LIS)<sup>11</sup>, trying to reinforce “real” economic and social links between both groups of countries. These programs try to complement the “formal and diplomatic” declarations of aims in favor of better bilateral relations. They also constitute specific answers to the existing challenges in the scope of the general EU-Latin American relations. According to the most recent reports on these issues<sup>12</sup>, the *main challenges for the general EU-Latin America relations*, as well as for the particular EU-CA relations, can be concentrated in following three categories:

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information about the debates between Venezuela, Bolivia, Peru, Mexico see, for instance, the Spanish newspaper El Pais, May 12, 2006.

<sup>9</sup> ICEI (2005), EU (2005b). Although the heterogeneity of LA countries and their people requires different approaches, building a coherent framework must be a necessary step to talk about improving EU-LA relations. Inside this common framework it is possible to introduce specific and general objectives.

<sup>10</sup> UNDP (2005), CEPAL (2005b), EU (2005b)

<sup>11</sup> EU (2004, 2005b). ALBAN program provides scholarships to some LA postgraduate students who wish to study in Europe. @LIS program aimed at promoting the use of information and communication technologies. Other examples of EU-LA cooperation are ALFA (cooperation between higher education establishments), AL-INVEST (to promote transfer of technology and investments), URB-AL (urban cooperation), ALURE (cooperation in energy fields), OREAL (Observatory for International Relations).

<sup>12</sup> EU (2004, 2005b), ICEI (2005). In a similar approach, CEPAL (2004c) and SICA-CEPAL (2004) consider the same categories as crucial references for development, governance and international insertion of LA and CA, respectively, empathizing the environmental perspective.

- Social cohesion, democracy and respect for human rights. The existence of severe income inequalities in Latin American countries makes it necessary to remember that economic growth is not enough for the target of providing an increasing standard of living to the population. Latin America needs sustainable development strategies and that it is difficult without considering together the internal situation of the countries and their relations with the rest of the world. Democracy and respect for human rights must be a cornerstone of the political systems of Latin American countries. Meanwhile, globalization should be taken into account permanently.
- Promoting multilateralism. This is a central idea of the EU world strategy for Europe and their external partners. It could be a useful way to find solutions to some of the world's problems, like the external debt of developing countries, international negotiations for trade liberalization, the access to financial markets, the international terrorism issues, or the world environmental agreements. To this point, multilateralism will probably provide an excellent opportunity for an increased participation of Latin America in the world governance and in the reform of the United Nations system. The proposal for the EU and Latin America working together is based upon the common values shared. Maybe, it is not only an alternative to the existing world equilibrium, but also the more reasonable way to avoid protectionism and certain forms of bilateralism belonging to the past. Moreover, it could be a good strategy to aid developing countries to improve their positions in the world economy.
- Regional integration. Integration is an old objective in Latin America<sup>13</sup>. The EU has always supported integration processes. But Latin American countries need to improve their integration mechanisms in the context of open economies (open regionalism)<sup>14</sup> and globalization. Despite the “rhetoric” on integration versus its “lack of progress” in Latin America, intra-regional exchanges have risen faster than extra-regional exchanges for much of the countries in the region. Likewise, closer relations between neighboring countries constitute an efficient way to boost economic development. To this extent, the experience of the EU integration could be useful in Latin America, taking notice of the different realities and having in mind that Europe must be prepare to aid and cooperate, to open its markets and to build new initiatives in an increasing and more efficient dialogue with Latin American countries.

Those challenges, and the new strategy adopted by the EU and Latin America, converge in two important points: strengthening economic integration and reinforcing international relations. Both elements can be understood as a “particular European view” of the concept of *open regionalism*. Both will constitute central references to the analytical purpose of this Paper. We will try to study what are the constraints that limit the economic integration in CA, what are the future options, and what could be the role of the EU in favor of the CA development.

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<sup>13</sup> Between the main existing experiences of integration in LA it is possible to refer to MERCOSUR, the Andean Community, CA, the Caribbean, and other close experiences in the field of free trade agreements between Chile, México and other countries and groups of countries (included agreements with the EU).

<sup>14</sup> SICA-CEPAL (2004), CEPAL (2004c).

Unfortunately, as we will see at the end of this Section, empirical evidence does not provide enough good information about real improvements in relations between the EU and Latin America, or between the EU and CA countries, in contrast with the increasing importance of official declarations about the strategic alliance between the EU and Latin American countries, the foreseeable role of the EU in that region or the common objectives for improving the running of the world economy.

### 2.3. The economics of Central American countries

El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica cover an area of approximately 500,000 km<sup>2</sup> with a population of around 40 million. The population growth rate is high<sup>15</sup>, regardless of the importance of the migration movements to other countries. Migration, particularly to the USA, is an important factor in most countries of the region<sup>16</sup>. Furthermore, the process of urbanization of recent decades (and the migration from the countryside to cities) has created particular problems, such as the increase in figures for crime and violence. Unfortunately, there are not enough public services or external aid to face the problems of poverty and social inequalities. In addition, the economic and social situation has not improved in recent years (or has not improved according to the increasing necessities)<sup>17</sup>, despite the remarkable progress registered in certain aspects, such as democratic stability or openness to neighboring countries trade, and world economic exchanges.

As a result of their internal and external situation, between 1980 and 1990 all countries of the region suffered a steep decline in per capita GDP. To try to face that, in the 1990s CA governments undertook structural adjustment programs, involving the adoption of policies of privatization, the control of public expenditures, and the opening of their markets to capital and products from abroad. The doctrine of the Washington Consensus was a kind of unique prescription for developing countries (and others receptors) during the storming 90 decade. The effects (both negative and positive) of the Washington Consensus are still visible and very often they have clearly shown the limits of orthodox approaches to deal with problems of sustainable development<sup>18</sup>.

To exemplify those statements, it is necessary to remember the ambiguous effect of reducing public policies: on one hand, public deficit could be reduced too; on the other hand, social programs (if they exist) will be cut off because of the lack of financial resources. Something similar emerges analyzing the effects of liberalization processes: inside the theoretical models, all changes seem to be favorable in long terms and inside a general perspective; meanwhile, real situations usually defer because developing countries have to face the increasing competence in their markets with a reduced governmental capacity of action.

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<sup>15</sup> CEPAL (2005b). In every CA country the rate of growth population is higher than the LA average.

<sup>16</sup> It is obviously an important element to reinforce relations with the USA.

<sup>17</sup> FMI (2005) reports on the progress in the social situation of CA. However, neither its data nor ECLAC (2004b, 2005b) information confirms clearly that assessment. On the contrary, both sources show that poverty affect near 50% of the CA population and extreme poverty affect around 20% of the population in the 90's and also at the beginning of this Century.

<sup>18</sup> Nieto (2005). Oxfam (2002).

However, after the 1980's, the macroeconomic situation of CA improved in general terms. It was partly due to the inflow of funds from emigrant workers and to foreign investments for manufacturing and export ("maquila"), but it was also due to the application of the right macroeconomic policies, oriented to the reduction of public deficit, despite the low tax receipts in most countries. Beyond their results, these efforts have had important impacts on the population, contributing to reduce available resources to finance social programs. Moreover, the remarkable macroeconomic success has not been able to solve one of the main external problems of a region where foreign debt remains as a heavy burden and leaves little capacity of action for national governments<sup>19</sup>.

At the same time, in regards to general macroeconomic performance, the external trade of CA countries has grown in recent years. It is particularly due to the expansion of the "maquila" industry<sup>20</sup> and to the exports of these products to the US market. Although there has been some degree of export diversification promoted by the "maquila" phenomenon, traditional exports (coffee, bananas, sugar) conform the bulk of the products exported by CA countries, in particular to the EU. Generally, the European Generalized System of Preferences (GSP) provides tariff reductions to those exports, according to the existing World Trade Organization rules. Nevertheless, in recent years, CA exports to the EU have increased slower than the total world exports of CA countries<sup>21</sup>. That is not satisfactory mark, in hopes for closer ties between the EU and CA region.

Also, from an internal perspective, the macroeconomic performance of CA countries has not extended to the living conditions of the population. Unfortunately, rates of unemployment and underemployment are very high; and access to healthcare, housing, education, and potable water are limited. The panorama can be completed with the negatives effects of immigration in terms of social integration (or dis-integration), in spite of the benefits from foreign remittances. After September 11<sup>th</sup>, the international agenda against terrorism introduced severe restrictions to the movement of persons, in contrast to the free movement of capital, products, and cultural standards promoted as central references for the current-globalization process. CA people are very aware of the situation when they try to work outside their countries.

#### 2.4. Progress in Central American integration

The Treaty of Central American Integration was signed in 1960. The CA Secretariat for Economic Integration (SIECA) is the main institution for the signatory's countries: El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica. Their objectives are the expansion of the market and the promotion of the standard of living. However, after four decades of integration, the deterioration in terms of trade and poverty of most CA countries remain as strong barriers to closer relations between neighbors.

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<sup>19</sup> External Debt is one of the most important problems of LA countries. Some of them, such as Nicaragua and Honduras, benefited from the Highly Indebted Poor Countries Initiative of the IMF.

<sup>20</sup> Foreign Direct Investments in industries located near the borders or benefited by special fiscal legislation. The phenomenon is particularly relevant in Mexico and CA. Nevertheless, data on production, trade and labor conditions are not always available in international statistics.

<sup>21</sup> See references at the end of this Section and figures in the Annex.

In the 1990's, after the peace process, there was a revival of trade and integration aims in CA<sup>22</sup>. At present, the “formal” objective of completing the customs unions is nearly reached. Nevertheless, the lack of a common commercial policy makes difficult to complete a “real” customs union in CA. To this extent, different approaches between regional governments about their common future are opening the door to other proposals, such as the signing of international trade agreements and the implementation of regional cooperation mechanisms<sup>23</sup>. It is particularly remarkable to remember that the US government has concluded bilateral agreements with “each individual CA country” on tariff reductions, *instead of concluding a global agreement with the CA customs union* as a whole, which obviously jeopardizes the ongoing regional process of integration.

As is shown in the Annex of this Paper (see Tables 3.4 to 3.13), the main exporters to other CA countries (intra-regional trade) are Guatemala, El Salvador, and Costa Rica, while Honduras and Nicaragua are far from the other three countries. On the side of imports, the main intra-regional importers are El Salvador, Guatemala, and Nicaragua.

Between CA countries, intra-regional trade currently operates as a free trade area, covering national productions with the exception established in Annex A of the General Treaty on Central American Economic Integration. In fact, there exist free movement of goods for CA products (not for products imported from abroad), except for: sugar cane (all countries), green coffee (all countries), roasted coffee (Costa Rica and Honduras for all countries), petroleum derivatives (Honduras for all countries), ethyl alcohol (Costa Rica with all countries and Honduras with Costa Rica, El Salvador and Nicaragua), and distilled alcoholic beverages (Honduras with all countries)<sup>24</sup>.

Common external tariffs and legislations have been progressively applied to imports from abroad, but the exceptions are still relevant, which makes it impossible to consider the situation as a complete customs union. Nevertheless, several trade instruments have been commonly adopted by CA countries: regulation on the origin of goods, unfair trade practices, the customs transit regime, sanitary and phyto-sanitary measures, safeguard clauses, and other measures of standardization.

The challenge for the future consists of implementing a common commercial policy, including a complete common external tariff system<sup>25</sup>. It could be based on common

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<sup>22</sup> Guatemala Protocol, 1993.

<sup>23</sup> EU (2004) also refers to the two speeds on integration, but it seems to be a rhetorical reference, except in cases of deeper integration, including monetary aspect, where there already exist CA institutions working on it, although some countries of the region have opted for belonging to the US dollar area. In this Paper I have not considered the financial and monetary scope of CA integration. Macroeconomic, monetary and financial aspects could be included as elements to establish different levels of integration in the region. FMI (2005).

<sup>24</sup> A complete customs union will need to eliminate these exceptions. According to WTO rules, there exist several additional exceptions to free movement of products in CA (textiles, shoes, tyres and agricultural products). SIECA (2005). ECLAC (2005c).

<sup>25</sup> EU (2002b), SIECA (2005) and FMI (2005) refer to the following common external tariffs: 0% for capital goods, 5% for raw materials, 10% for intermediate goods, 15% for finished goods. That means a “theoretical” average of 7.5% for the common external tariff, although there exist differences and dispersion between countries (depending on the origin of the imports and other bilateral criteria). As “real” external tariffs are not completely common, is not possible to extend the principle of free movement of goods to products imported from abroad, that impel to complete the internal dimension of the customs union. See SICA-CEPAL (2004) for more criticisms to the incomplete customs union in CA.

tariffs reductions, according to international agreements: i.e. with the USA, the EU and other Latin American countries (bilateral negotiations), and the World Trade Organization (multilateral compromises).

Despite certain border disputes between CA nations, there exist uniform customs procedures as well as common institutional rules able to confront specific problems created by some of the mechanisms of integration. Some of them could be solved with a strong political will, but the general economic and social situation of the region needs to be improved at the same time; Otherwise, a lack of legitimacy (a kind of “split” between people and governments promoting integration) would cause criticism against integration. In this context, the EU institutions have offered technical support to the CA initiative to abolish internal customs and go into an irrevocable process of creating an internal market in the region<sup>26</sup>. That technical cooperation could be an important complement of European financial and economic aid to CA.

In fact, as a necessary complement of economic integration, political integration and supranational cooperation received new impetus in the 1990's (Tegucigalpa Protocol of 1991), by the creation of the Central American Integration System (SICA). Moreover, some aspects of the social scope were included in the Treaty of Social Integration for CA in 1995, although they have not really been promoted (with the exception of some security and education programs). Much of those purposes were discussed in 2001, in the Regional Consultative Group, involving CA representatives and experts from the main donors and organizations linked to development aid in the region<sup>27</sup>.

After decades of integration and the new impetus to CA project in the 1990's, several important obstacles still remain and contribute to the timid progress of regional integration. Those main obstacles could be concentrated in the following points<sup>28</sup>:

- Border disputes and conflict between CA countries.
- Institutional weakness of CA integration.
- Unclear political aim on the objectives and means of action for integration.
- Important economic and social disparities between partners.
- Lack of financing mechanisms for CA development.
- The vulnerability of the region.
- The weak position of CA in the international economic system.

Some of those obstacles can be surmounted, particularly if economic achievements make the required political agreements between national governments easier. The basis

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<sup>26</sup> EU (2003). Rueda (2005). There exist cases of customs shared by some of the CA countries (such as El Amatillo, in Honduras). Nevertheless, in a complete customs union regulations should be applied to free movements of goods from the viewpoint of consumption instead of from the viewpoint of production. Free movement of goods produced in CA countries (excluding external productions) is not enough for a real customs union.

<sup>27</sup> The group of representatives and experts on CA integration called The Madrid Consultative Group, launched the shared central objectives for the modernization of the region: to reduce the region's ecological, productive and social vulnerability; to transform CA on the basis of an integrated analysis of the transformation of the productive sectors and of human development; to manage the available natural resources rationally; to promote greater participation by civil society in development; to enhance regional integration and the institutional structure of integration; to coordinate the efforts of donors, guided by the established priorities. The Alliance for Sustainable Development (ALIDES) has also played an important role in the consultative works to establish the main goals of CA integration. EU (2003).

<sup>28</sup> Despite other important progress: CEPAL (2004c), SIECA (2005).

for those progresses should be the improvement of the general economic and social situation, as well as the foreseeable context of more balanced international relations. In that situation, “institutional” integration and “real” integration will go together in CA<sup>29</sup>.

### 2.5. Role of international development aid to Central American countries

During the 1990's, several economic plans for CA cooperation were proposed under the United Nations supervision. The EU and its Member States also contributed to certain initiatives in the region. Spain, for instance, combined substantial programs for the cooperation with CA countries through different bilateral initiatives. In recent years, aid mechanism and cooperation programs have been renewed inside the EU general framework for the cooperation with Latin America. The framework has been completed with specific links between Member States of the EU and CA nations.

Some examples of areas of European cooperation with CA have been previously mentioned, such as the support of small and medium sized businesses, the promotion of human rights, food security, export promotion, or cooperation with specific economic and social sectors (fishing, transports, telecommunications, health care, research, training and educational programs). In the late 1990's, the EU cooperation concentrated on three issues: the support of social sectors, the consolidation of democracy and economic integration, and the favorable insertion of CA in the world economy<sup>30</sup>.

In this context, EU cooperation with CA is aimed at supporting the economic process of integration, regarding the implementation of common policies in the region, and the consolidation of CA common institutions. That means:

- Technical assistance for the design and implementation of measures to establish a complete customs union.
- Design and implementation of mechanisms to harmonize legislation in the field of technical standards, rules of origin and mechanisms to encourage the participation of small and medium-sized enterprises in intra-regional trade.
- Technical assistance for the development of a competition policy through a regional legal framework.
- Strengthening the competitiveness of the region.
- Environmental improvements and reduction of vulnerability in the region.
- Strengthening the role of civil society in the integration process.
- Seeking for complementarities between national economic policies and regional infrastructure strategies.
- Solutions to external debt problems and better implementation of Highly Indebted Poor Countries (HIPC) initiatives.
- Improving the EU trade mechanism, in particular the Generalized System of Preferences, reducing the protectionism of the common agricultural policy, and controlling other trade measures (sanitary, phyto-sanitary controls).
- To support regional institutions and common instruments for CA integration<sup>31</sup>.

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<sup>29</sup> SICA-CEPAL (2004) refers to this dichotomy as parts of the multidimensional process of integration in CA. Theoretical versus real (or governmental versus factual) could also be considered as similar terms.

<sup>30</sup> EU (2003, 2004).

<sup>31</sup> Including the creation of structural funds and the promotion of studies on regional integration in CA.



One important program of international cooperation in CA region is the Plan Puebla Panamá (PPP), sponsored by the Mexican government and the Inter-American Development Bank (IDB) with the contribution of various international and regional organisms<sup>32</sup>. The objective of the PPP is to support development projects based on sustainable human development, awareness of natural disasters, and modernization of regional infrastructures (routes, electricity, energy, telecommunications).

Additionally, another main initiative in the region is the sign of a Free Trade Agreement between CA countries and the USA (CAFTA). It could be considered as an opportunity of trade promotion for involved nations, although several experts believe that, in the short term, losses will be higher than gains.

I will refer to these two initiatives (the effects of the CAFTA and the possibilities of the PPP) before considering the viability of creating some common financial mechanism for the CA process of economic integration, oriented toward boosting development and integration in the region<sup>33</sup>.

## 2.6. Alternatives to Central American development: PPP and CAFTA

This part of the Paper introduces two main options existing for the processes of development and integration in CA: The Plan Puebla Panamá (PPP) and the Central American Free Trade Agreement with the USA (CAFTA). Next point will be dedicated to the CA mechanism of integration, in particular to the creation of a common budget with structural funds.

As it was explained before, I consider the PPP as an initiative in the field of “international cooperation”, which means that the capacity of decision remains in the hands of each national government. In an inter-medium stage between “international cooperation” and “economic integration” we can find free trade agreements, as the CAFTA, where involved nations do not have to share sovereignty, but they agree on the reduction or removal of trade tariffs. Finally, economic integration represents a more important step toward creating bigger spaces from separate individual countries, because it affects national sovereignty, particularly in the cases of implementing common policies (positive integration).

Once remembered these differences (and the potential complementary between them), it is possible to refer more properly to the open option for CA countries. Firstly, the PPP is a regional development plan boosting “international cooperation” among CA nations and nine states in the southeastern part of Mexico (which constitute together the so called Meso-American region). The Plan encourages participation in social and environmental programs, as well as the strengthening of ties between local institutions.

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<sup>32</sup> Economic Commission of the UN for Latin America and the Caribbean (ECLAC-CEPAL), Central American Bank for Economic Integration (BCIE), Costa Rica Institute for Economic Prospective (INCAE).

<sup>33</sup> I do not consider now the possibility of reinforcing the EU-CA trade relations because empirical evidence in recent years are not enough good to hope real improvement in CA development due to an increasing in trade with the EU.

The PPP focuses on a population of close to 70 people (30 in Mexican states and 40 in CA countries) that share a common history and common problems. The Mexican government launched the Plan in 2001. It has eight basic goals:

- Social and human development.
- Civil society participation in development.
- Promoting structural change in the economies of the region.
- Capitalizing on the regions' comparative advantages and vocation.
- Creating incentives for productive investments.
- Sustainable management of natural resources.
- Coordinated plans and strategy development in the entire region.
- Modernization and strengthening of the institutions in the region.

The PPP has the support of several international organizations<sup>34</sup>, such as the Inter-American Development Bank (IADB), Central American Bank for Economic Integration (CABEI), Economic Commission for Latin America and the Caribbean (ECLAC), Andean Development Corporation (CAF), Central American Integration System (SICA), and the United Nations Development Program (UNPD)<sup>35</sup>.

Under the commitment of the PPP several initiatives have been promoted: electric-energy interconnection (Guatemala, Mexico, Belize), telecommunications in CA, human and sustainable development projects, natural disaster prevention, eco-tourism promotion and trade facilitation (modernization of customs union and elimination of non-tariff barriers)<sup>36</sup>.

Nevertheless, results are not satisfactory enough. It seems to be a big project controlled by the biggest country of the Meso-American region. Besides, the financial support does not represent an important increase with respect to the aid assistance that the region should receive from their governments and from the international institutions in the case that PPP did not exist. Otherwise, the Plan offers an excellent opportunity to improve the "international cooperation" mechanisms in the region. To that extent, it is an interesting initiative for the region, particularly for Mexican regions.

However, development challenges in CA need other additional instruments, in particular for trade promotion and for the reinforcement of the insertion in the world economy. This lack cannot be covered by mere initiatives of international cooperation, because they do not provide with common instruments in the fields of trade policies or international relations.

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<sup>34</sup> There is not total amount on the PPP budget, particularly because many of its resources are loans.

<sup>35</sup> SICA-CEPAL (2004). ALIDES and The Madrid Consulting Group have joined experts on CA integration to debate on: PPP, international aid, regional integration and trade agreements in CA.

<sup>36</sup> The EU does not participate in PPP. Nevertheless, with this regards, EU (2003) refers to some positive cases that demonstrate the efficiency of the regional institutions in CA (i.e. electrical interconnection projects).

The second main initiative for the region is the CAFTA. It links the USA and CA countries, in particular Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua<sup>37</sup>. Its importance derives from the fact that it covers unilateral privileges of accessing the US market, includes an increase in transparency of trade rules, and reduces discretion on the part of economic authorities. It could also improve direct investment and employment, but to this respect there exists a notable controversy. On one hand, net CA exports to the US (especially “maquilas”) have welcomed the agreement. On the other hand, agricultural sectors and activities oriented to the production for the domestic markets have answered that they cannot withstand the competition coming from stronger American producers<sup>38</sup>.

This controversy has provoked much discussion, despite the transitional period established for the application of the CAFTA is in some cases from fifteen to twenty years. The existing studies on the economic implication of the CAFTA do not elude the controversy. Some of them concluded underlining the advantages of the Agreement<sup>39</sup>, while others insist on their negatives effects on the countries of CA region<sup>40</sup>.

In CA nations, tariff reductions due to CAFTA will probably have a negative economic impact on their public incomes. Public revenue will decrease in the same proportion as the cut applied to external tariffs, unless a hypothetical increase of imports can compensate the loss of public revenues. In that case, the increase of imports could cause other economic problems (much more difficult to predict), although simultaneously, import increase would improve the general efficiency of CA economies. As final results depends very much on the progress of economic development strategies in each country, the answers to the dilemma between “reducing external tariffs” or “maintaining the protection of the internal markets” enters into a wider question related to the processes of liberalization and globalization as general trends. In this wide context, tariff reductions become more difficult to analyze. Then, it seems reasonable to begin with partial analysis, as is the case of the studies based on the fiscal implications of free trade agreements.

With regard to tariff reductions or eliminations there are two other additional aspects to contemplate. On one hand, given that -on average- tariffs in CA countries are already low, the negative impact of their elimination should be small. On the other hand, tariff revenues constitute an important part of the public revenues in CA countries; therefore,

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<sup>37</sup> CEPAL (2004a). The Dominican Republic has been included in the same trade regimen, because its agreement with the USA. To the analytical purpose of this Paper, I do not consider the Dominican Republic as a part of the CAFTA. Other works, as FMI (2005) refer to CAFTA-DM and include this Caribbean country as part of the USA trade strategy in the area (Caribbean Basin Strategy). In this Paper, Panama is in the same situation: I do not consider Panama as a part of the CA process of integration, although its accession to the CA customs union is “on the table” at the moment. Something similar happens with respect to Belize.

<sup>38</sup> Oxfam (2002) and its successively reports present a critical and suggestive analysis on the difficulties of developing countries to export to developed markets considering the existing world trade regulations.

<sup>39</sup> FMI (2005). See more references in Paunovic (2004) and SIECA-CEPAL (2005).

<sup>40</sup> Paunovic (2004) focuses on the fiscal implication of the CAFTA and analyzes three of the possible fiscal implications: direct and indirect effects (which will produce a negative impact on fiscal CA revenues) and elasticity effects (which will attenuate the adverse impact). SIECA-CEPAL (2005) extend the analysis to the fields of production, employment and external trade. FMI (2005) refers to the static and dynamic implications of CAFTA and also extends the analysis to macroeconomic and financial implications.

the negative impact should always be considered (or compensated) even if it is small<sup>41</sup>. Incomes coming from tariffs represent between 6% and 12% of total tax revenue in CA countries (see Table 1.1), but the economic impact of tariffs in certain sectors and productions should not be forgotten. That is one of the reasons to take into account the general benefits and losses of a free trade agreement, instead of just its fiscal implications. Public policies could be improved with the increase in efficiency due to the openness to international trade, or maybe not, in particular if privatization policies have irreversibly affected the capacity of national governments to act in the scope of their regional economies<sup>42</sup>.

Beyond the direct effects of reducing tariffs, there exist non-negligible indirect or internal effects. In fact, as Paunovic<sup>43</sup> has calculated, indirect taxes on imports are more important than tariff revenues. Together, both tariff and indirect taxes, account for around one third of total tax revenue in CA countries, which is a very important figure, even though it does not indicate the net fiscal balance between losses and benefits: there certainly exist other economic effects and fiscal implications to take into account (i.e. an increase in imports and public revenue, depending on elasticity effects).

As a result, considering both effects together (tariffs and other indirect taxes), at the end of the transitional period of 15-20 years established for the complete entry into force of CAFTA, the fiscal losses could represent between 4% and 7% of the GDP of CA countries, although those losses would be partially compensated by other macroeconomic effects. According to Paunovic's estimations, the total proportion of GDP affected by the reduction in tariff and indirect taxes would represent: 4.12% in Guatemala, 4.21% in Costa Rica, 4.53% in El Salvador, 4.72% in Honduras, and 6.97% in Nicaragua. Those figures are non-negligible. That is a decisive point in studying the possibility of using a small part of national GDPs and customs union revenues for a common budget in the CA process of integration, as I will propose later.

Obviously, other positive and negative effects of trade liberalization should be considered. The assumed rate of GDP growth and the income elasticity of imports for each country are examples of that. The economic growth estimations vary quite a bit, as shows, for instance, in yearly UN publications<sup>44</sup>. The difficulty to forecast becomes particularly relevant when we introduce a 15 or 20-year scenario for future tariff reductions in developing countries, as is the case of CA with regard to CAFTA.

Despite difficulties "to see into the future", the available perspectives do not offer a satisfactory scenario for the region. Paunovic has estimated total yearly losses around

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<sup>41</sup> FMI (2005, p. 50-55) also analyzes fiscal losses for CA countries due to the CAFTA. Its methodology and conclusions are similar to Paunovic's work which I refer to here. However, FMI gives more importance to macroeconomic compensations, expect in the case of Costa Rica, where trade diversion effects could be greater than in the rest of CA countries.

<sup>42</sup> Nieto (2005) provides more references to Washington Consensus. FMI (2005) offers several examples of the philosophy of the Washington Consensus applied to analysis of CA situation.

<sup>43</sup> Paunovic (2004). SIECA-CEPAL (2004) and FMI (2005) offer similar information, as well as data on the fiscal importance of external tariffs for CA countries.

<sup>44</sup> ECLAC (2005c). FMI (2005) and SIECA-CEPAL (2004) agree on the negative fiscal effects of CAFTA for CA countries (both, in static and dynamic terms), but they find positive global effects in terms of economic growth. Both reports also find positive effects for a deeper economic integration: for instance, an additional growth of around 0.5%, originated by strengthening integration in the region, which could compensate the lose of fiscal revenue in CA countries.

0.2% of the GDP in Costa Rica, and losses about 0.4% of the GDP in El Salvador, Guatemala and Nicaragua. But the figure could increase to 0.8% in Honduras. Those figures inform on the variable fiscal vulnerability of each country and provide a reference on the importance of signing international agreements that include tariff reductions and, therefore, affect public revenues and the GDP of developing countries.

This fiscal approach constitutes one part of any complete study on the effects of external trade and international agreements. Complementary approaches must be considered to have consistent conclusions on CAFTA: impacts sector-by-sector (particularly for agricultural products), effects in terms on employment, specific macroeconomic implications (i.e. efficiency gains). Even if the complete study of the CAFTA is not an objective of this Paper, it is necessary to keep in mind the existence of non-marginal negative fiscal impacts as a result of its implementation.

In my opinion, much of the CAFTA disadvantages could be corrected if compensatory mechanisms existed. But CAFTA, as I have already explained, is not a project of economic integration. Compensatory instruments are always possible in a more sophisticated scenario of integration. That is the case of the EU process of integration and that could be the case of CA countries in the future. The small nations of CA could lose fiscal revenues with the implementation of CAFTA, but they will benefit from other positive effects coming from their relations with the USA. Additionally, they will obtain more gains if they continue their regional process of integration.

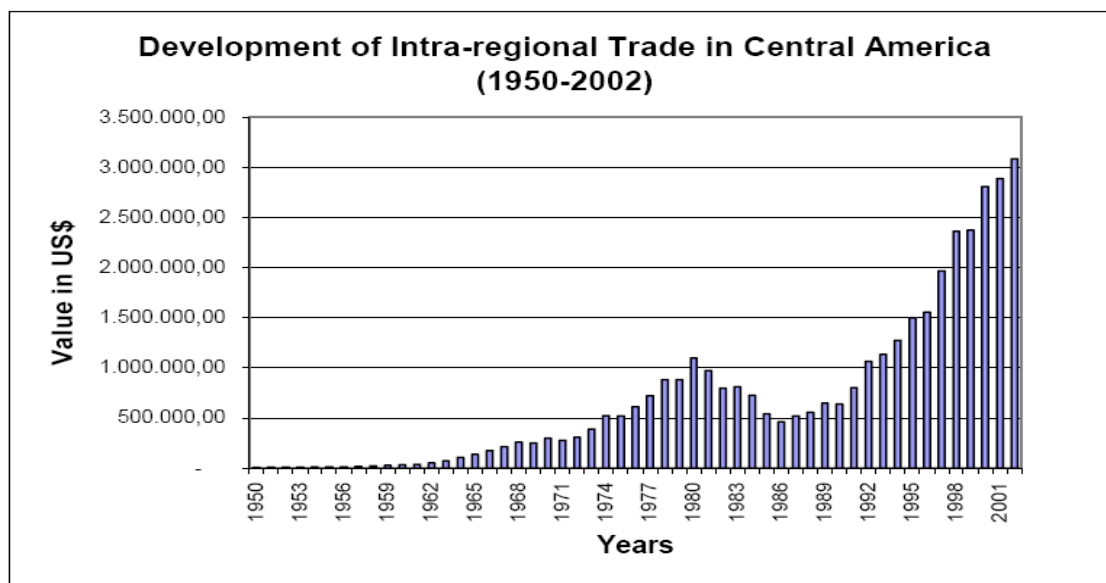
Instead of remaining with the bilateral tariff reduction signed, CA countries could move into a common tariff system based on a regional agreement and commonly applied to the rest of the world. CAFTA should not stop the aims at promoting deeper integration in CA. On the contrary, regional integration can be a right way to improve international relations (including the USA and the EU) and to promote a better insertion of CA in the world economy.

**Table 1.1. - CAFTA: Central American Fiscal Implications**  
 PARTICIPATION IN GDP AND IN TOTAL TAX REVENUE OF THE REVENUE  
 FROM TARIFFS AND INTERNAL INDIRECT TAXES LEVIED ON IMPORTS (%)

	Type of taxes	Participation in GDP	Participation in total tax revenues
Costa Rica	Tariffs	0,83	6,32
	Indirect taxes	3,38	25,64
	Total	4,21	31,96
El Salvador	Tariffs	1,09	9,7
	Indirect taxes	3,44	30,66
	Total	4,53	40,36
Guatemala	Tariffs	1,24	11,73
	Indirect taxes	2,88	27,17
	Total	4,12	38,9
Honduras	Tariffs	1,99	12,54
	Indirect taxes	2,73	17,17
	Total	4,72	29,71
Nicaragua	Tariffs	1,79	7,89
	Indirect taxes	5,18	22,88
	Total	6,97	30,77

Source: from Paunovic, *op. cit.* p. 9.

**TABLE 1.2. - Intra-regional Trade in Central America**



Source: SIECA

## 2.7. Strengthening economic integration as a priority for Central American development

Even though everyone could agree that integration, as a general concept, consists of the formation of a whole from different elements, that definition must be clarified within the specific scope of economic integration processes. There exist several steps and scenarios of economic integration and, therefore, the concept could be ambiguous. A simple trade integration project is not the same as a process involving macroeconomic aspects, such as economic policies or even the implementation of a single currency.

There are notable differences between creating a free trade area, implementing a common market, or managing common institutions with common financial resources. To a certain extent, free trade agreements should not be considered mechanism of economic integration. They belong to a stage previous to integration initiatives because their purposes are liberalizing instead of creating common policies. That main difference between negative integration (liberalization) and positive integration (common policies) is well known in literature of international economics<sup>45</sup>.

Once free trade areas are excluded from the economic mechanisms of integration, the first stage of integration processes consists of creating *customs unions*. The objective of a customs union is to ensure the free movement of goods, removing trade barriers (negative integration); nevertheless, that task often needs the application of certain common decisions and policies (positive integration). In that case, a customs union project goes beyond mere trade liberalization<sup>46</sup>.

The final situation must create global economic benefits for the countries participating in the integration process; nevertheless, in political terms the stability of the project largely depends on the individual balance of each of the participants between advantages and disadvantages deriving from the general integration process. Knowing the importance of individual national balances is a necessary reference to promote integration; more precisely, it is an indispensable step for creating compensatory instruments or financial redistributive policies between specific members of a regional integration project<sup>47</sup>.

In this regard, CA countries seem to be in a good “new” position to reach the “old” targets of integration. This is the conclusion looking into the intra-regional trade and observing its increasing tendency from 1992 until now; on the contrary, SIECA statistics (see Table 3.4) show the reduction on intra-regional along the period 1980-1992. That polarized behavior constitutes a lesson on the adverse economic implications of political confrontations: the different kind of conflicts between CA countries in the 1970’s and 1980’s were decisive to the negative economic results<sup>48</sup>.

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<sup>45</sup> Nieto (2001, 2005). We can also distinguish between trade integration, economic integration and political integration. The degree of shared sovereignty constitutes a crucial element to that extent.

<sup>46</sup> The common customs implies a first step to share sovereignty in two directions: common legislation is needed and common tariffs could be implemented. Any kind of measure beyond those aspects could contribute to improve the free movement of factors, the application of other legislative measures and the common aims to reach other economic and political agreements. Even imperfect, customs union involves negotiations and common decisions; therefore, implies the management of trade sovereignty.

<sup>47</sup> This is the case of the European Structural Funds.

<sup>48</sup> Which contrasts to the good moment prevailing in the political dialogue in CA nowadays.

In this context, the external trade of CA nations has shown good performance in recent years, although its growth has been less remarkable than the favorable evolution of intra-regional exchanges. The exception has been CA trade relations with the EU, which have decreased in relative terms. On the contrary, there are no doubts to the increasing weight of the USA inside the external exchanges of CA<sup>49</sup>.

Reinforcing intra-regional trade and promoting external trade (with the USA, Latin America, Europe and the rest of the world) must be complementary strategies for CA integration. They are not different alternatives. On the contrary, they belong to the same philosophy: an increasing openness to the world economy will facilitate international trade; simultaneously, intra-regional exchanges will initially benefited from promoting the mechanisms of open regionalism in CA.

The key points for establishing future scenarios are the economic growth and the external openness, two elements depending on the favorable regional and international environment, but also on the internal conditions of each country. To that extent, unilateral initiatives or non-common trade negotiations will be a negative strategy for neighboring countries and will probably reduce the total external trade of the region.

Bilateral trade procedures instead of common external policies in CA will probably affect economic growth in a negative way, particularly if national strategies do not coincide with the philosophy of open regionalism<sup>50</sup>. The negative effects of bilateral and discriminatory trade agreements are well known in economic literature. That is one of the reasons to promote multilateralism as fundamental in European proposals for a new international relations framework.

Therefore, opting for the promotion of open regionalism and deeper economic integration constitute, in my opinion, a more appropriate development strategy for the countries of the region. Nevertheless, this is just a theoretical conclusion, because the real fact is that the social situation of CA has not improved very much, despite the increase in external and intra-regional trade in recent years. That conclusion invites us to consider the necessity to implement new common policies in order to obtain better distribution of the benefits of CA integration. Improving trade mechanisms is not a guarantee for economic growth, and economic growth is not enough for guaranteeing social and sustainable development in CA. But integration can aid trade and growth processes and, therefore, can aid to fulfill the objectives of combating poverty.

In terms of trade, to the present, the main progresses in CA customs union include agreements on the harmonization of tariffs. Around 90% of tariffs have been harmonized and progress has been made in other products affected by technical barriers or belonging to sensitive sectors, such as agricultural and textile productions. In the same direction, the tax harmonization is under discussion, following a process similar to the EU experience throughout the last decades (and probably with similar problems to face). Other progress has taken place in the areas of customs legislation<sup>51</sup>, to the point that intra-regional trade has greater transparency and fluidity, although there is no

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<sup>49</sup> EU (2004): figures clearly show the importance of CA trade with the US. Political and social factors (migration) give more importance to CA-US relations. But it should not stop open regionalism in CA.

<sup>50</sup> CEPAL (2004c).

<sup>51</sup> Rueda (2005).



established common peripheral customs yet. For trade between CA countries, the regional process of integration is close to becoming a customs union. For trade with third countries, CA countries need to set up a common commercial policy<sup>52</sup>.

Beyond this situation, it seems to be necessary to prepare the CA customs union for coming years, particularly in the field of redistributing the benefits (and losses) of integration between partners. If CA governments have to make an effort to share sovereignty in certain areas of political and economic decisions, and if they have to adapt their labor and capital markets for the entry of more foreign products and foreign direct investments, they will need a way to explain to the population the balance between benefits and negative impacts of the integration process.

To confront these issues, *CA governments will gain legitimacy* if they have some kind of common financial funds to use as re-distributive policies. Moreover, these funds could contribute to improve the efficiency of economic systems in the region. Last, but not least, those financial instruments would work in favor of the reduction of differences between CA nations. That objective of cohesion would be positive to general economic growth, but specific agreements and appropriate institutions are required to deal with the administration of the structural funds created for this purpose. The CA process of integration is still limited, but its weaknesses can be surmounted by political agreements based on real economic achievements and future foreseeable gains.

Finally, a strong impulse to economic integration could be compatible with other alternatives. In addition, economic integration could aid to face two problems originated by the CAFTA from better position. The first problem concerns the bilateral method of negotiation applied by the US government to each CA country, which jeopardizes the possibility of establishing a common commercial policy (and a complete common external tariff) for the customs union. Instead of remaining in the signed bilateral tariff reduction, CA countries could move into a common tariffs and legislative system based on a regional agreement and commonly applied to the rest of the world. That should be a way to definitively complete their customs union. The second problem refers to the decline of fiscal revenues due to tariff reductions, which could be confronted from a better position if CA countries agree on the implementation of a compensatory mechanism, including the creation of a common regional budget.

## 2.8. Creating a common budget for Central American integration: preliminary proposal

The EU is the only process of integration with a common budget. It accounts for around 1% of the EU's GDP. Its main two financial sources are: Firstly, direct transfers from Member States (according to their respective GDP, and their Value Added Taxes); Secondly, earnings from the application of the external tariffs established for the EU customs union (included tariffs applied to agricultural imports)<sup>53</sup>. The expenditures of the EU budget go to three main groups of common policies and instruments: 45% to

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<sup>52</sup> Beginning with their most important trade partner, the USA, and their most important challenges to this extent, the implementation of CAFTA agreement. Without peripheral customs it will be impossible the free movements of products not elaborated in CA countries.

<sup>53</sup> Nieto (2001, 2005). Financial resources or budgetary revenues are also known as "own resources" of the EU institutions.

Common Agricultural Policy, 33% to Structural Funds, and the rest to other policies and institutional matters.

Whether or not to create a common budget in CA is a question already debated, but without a final decision yet<sup>54</sup>. We assume now that, in spite of the existing difficulties, a common budget should be possible and convenient for the region. What I want to summarize here is the main characteristics of a hypothetical common budget that will be created inside the CA process of integration, considering three main arguments. Those *arguments in favor of a common budget for CA* are the following:

- 1) A common budget for the CA process of integration would improve the economic gains of the process of integration, considering that it would reinforce the customs union and the free movement of factors and it would allow the application of certain common policies in the region.
- 2) A common budget for the CA process of integration would improve the political stability of the region (because of the necessary agreements in order to take decisions and to share certain quotas of sovereignty). It will also give greater legitimacy to national governments (due to their common will to reduce poverty and disparities in the region).
- 3) A common budget for the CA process of integration would improve the international position of CA. It would allow more capacity of maneuver to CA in dealing with external initiatives (PPP, CAFTA, agreements with the EU) and it would probably increase the efficiency of the external aid programs carried out in the nations of the region.

In a study presented at the University Complutense of Madrid, Guillermo Vázquez<sup>55</sup> has calculated several options for a CA common budget, considering different kinds of revenues and different periods for planning expenditures. I will refer now to the simplest option: a common budget of maximum value around 0.5% of the aggregate GDP of CA nations, with revenues coming from two main sources (common external tariffs, and direct contributions from member states according basically to their GDP)<sup>56</sup>, and final expenditures specifically dedicated to cover the action of one common structural fund operating in the region for social and development projects<sup>57</sup>. Those restrictions will not exclude other possibilities, but I will briefly explain now *three fundamental aspects of that proposal*, as well as its institutional mechanisms.

- *First*: The new CA common budget should be a small one. At the beginning, it should be clearly inferior to the 0,5% of the aggregate GDP of the countries, because of the poverty of the region and the fiscal difficulties of their governments. Taking into consideration that CA nations will lose fiscal resources as a result of the trade liberalization (CAFTA and other trade agreements), the budgetary figures could be modest at the beginning, but they could increase in the future.

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<sup>54</sup> Nieto (2004).

<sup>55</sup> Vázquez (2006). The research work was finished in June 2006 under my academic direction.

<sup>56</sup> Nieto (2004) presents other sources for the revenue system.

<sup>57</sup> Vázquez (2006) presents others expenditures policies.

- *Second*: Financial mechanisms established in order to contribute to the CA common budget are as important as the total amount considered. I have selected only two financial sources of the common budget, but both should share a single attribute: they must be considered as “own resources” of the CA institutions of integration<sup>58</sup>. That means that neither the national government nor single institutions would take budgetary decisions without the previous agreement of CA common institutions. Certainly, the role of those institutions of CA integration should be defined, but before that we need a better understanding of the management of the revenue system.

Revenues must be easy to calculate, at least in the beginning of the process, as a way to avoid conflicts between partners. Most likely, the “simplest way” to do that is to sign an agreement between CA countries with a clear definition of the concept of common budgetary resources. The definition must include a reference to at least the two mentioned national contributions to the common budget: Tariff incomes (total or partially considered) and national direct contributions (according to national GDP or national rectified GDP)<sup>59</sup>. I will return to these issues further on.

- *Third*: Not less important are decisions on how to use the common budget. That means to consider where to invest common resources and what guidelines should be used to select projects and refuse other initiatives. In this regard, it is useful to remember the rules of European structural funds, trying to adapt the experience to the situation of CA, but in the simplest possible way<sup>60</sup>. According to that, one Central American Structural Fund (CASF) would be created<sup>61</sup>. This common financial instrument or structural fund could have three separate objectives: infrastructure projects, social projects, and projects of economic cooperation.

Infrastructure projects could cover two areas: common general infrastructures and specific programs to improve border infrastructures. Social projects should cover two other areas: combating poverty and improving training and education programs. Finally, economic cooperation should focus on small and medium business, as well as promote the efficiency of the international programs of cooperation in CA. It should be difficult to find initiatives able to be benefited from this philosophy. What may be more complicated is to establish conduct rules based on the principals of good governance<sup>62</sup>.

To this respect, the creation of *common institutions* with capacity and independence to act in budgetary issues should be seriously considered. It will only be possible based on a supranational agreement signed by every CA country. It will imply a previous consensus on the shape and the content of those institutions. Aware of the task, I propose two basic institutions: a Budgetary Commission and a Budgetary Court. The first will be able to fix criteria and implement projects. The second will be responsible for controlling the right use of common resources. While those ideas remain as proposals, the existing institutions (and the experts of SIECA and Central America

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<sup>58</sup> According to the experience of the EU budget, the “own resources” system is an efficient way to minimized budgetary conflicts because revenues belong to common institutions without the necessity to take into account national decisions of Member States. Nevertheless, conflicts always arise (Nieto, 2001).

<sup>59</sup> Nieto (2004) refers to some options to rectify national contributions.

<sup>60</sup> Nieto (2004).

<sup>61</sup> Rueda (2005) refers to the political difficulties existing between CA countries to implement common structural funds, regardless of the initial support of the CA institution to manage them.

<sup>62</sup> Nieto (2001) presents the main principals of the EU budget as well as its institutional rules.

Bank for Economic Integration) could begin actions, preparing the scenario for a new possible step in CA integration focused on an ever-closer union in the region.

Finally, considering the figures included in Table 3.1 (see Annex) it is possible to obtain an approximate estimation of the total amount of the CA budget. In 2002, around 0.5% of the total GDP of the region represented \$375 million<sup>63</sup>. The amount represents a maximum estimation. Approximately 50% of that figure would be provided by revenues coming from customs duties and the other 50% would be calculated according to the national GDP of each country (or and estimated and corrected GDP, according to a previous agreement on the subject).

Compared to the total amount of the PPP, that data is relevant. Data is also relevant compared to the international aid received by CA countries (including the EU cooperation, as the main donor to the region). There are no possible comparative statements with regard to the free trade agreement between CA and the USA, because do not exist financial instruments in the case of the CAFTA. Nevertheless, the estimated fiscal losses for CA countries due to the application of the CAFTA (previously considered in this Paper) could be bigger than the national contribution of CA countries to *their common budget*. This is not a decisive argument, because CA countries will not refuse better trade agreements with the USA, but it is an invitation to revitalize integration in CA, particularly if nations of the region have decided to eliminate their tariff barriers, creating a situation that could “open the door” to deeper integration.

What CA needs now is to complete the customs union project in its two complementary directions: free intra-regional trade and common external tariffs. Without decisive advances in the project of the customs union, the possible common budget remains as an interesting, but quite difficult option for now.

## 2.9. Notes to evaluate the external trade of Central American countries

Tables 3.2 and 3.3 (see Annex) provide basic information on world exports and imports of CA countries. More specific data is available in SIECA<sup>64</sup>. The problem here is not the lack of information, but the capacity to analyze it in a synthetic way. For this purpose, I have calculated two direct statistical indicators<sup>65</sup> (or trade ratios) and have applied them to the external trade of each CA country. The first one is the Openness to International Trade (OIT). The second refers to Export Trends (ET).

Results are shown in Tables 3.4 to 3.13. They refer to the period 1995-2002 and come from the following formulations:

➤  $OIT = (X + M) / GDP$

- Which means: Openness to International Trade = (Exports + Imports) / GDP

- In percentage, OIT shows the evolution of external trade with respect to the Gross Domestic Product of a country.

<sup>63</sup> The CA aggregate GDP in 2002 was \$ 65,000 million (see table 3.1 in Annex).

<sup>64</sup> SIECA (2005).

<sup>65</sup> Indicators are ratios for empirical observations. Expressed numerically, they synthesize aspects of a complex phenomenon for analytical purposes.

➤  $ET = X / GDP$

- Which means: Export Trends = Exports / GDP
- In percentage, ET shows the evolution of the participation of exports in the Gross Domestic Product of a country.

Both indicators have been calculated for every CA country and year and have been applied to trade with the main economic areas: CA, the rest of Latin American countries, the USA, the EU, and the rest of the world. Considered as a percentage of the total CA world trade, both indexes allow comparative statements based on the trade dynamism for each mentioned area. According to the results, three clear evidences must be underlined:

- I) The USA is the main trade partner of CA countries. In 2002, more than 50% of Costa Rican exports went to the USA. The figures for the rest of CA countries were 20% El Salvador, 28% for Nicaragua, and 30% for Guatemala and Honduras. Considering total trade (exports and imports), the USA is still more important for CA external exchanges (see OIT indicator in Tables 3.4 to 3.8).
- II) Intra-regional trade in CA has remarkably increased throughout the period 1995-2002 (with the exception of Costa Rican exports to other CA countries that have reduced participation within its world exports). Throughout the period 1995-2002, intra-regional trade in CA has grown faster than trade with the rest of the world. As a result, in 2002, near 60% of El Salvador's world exports went to CA countries. The figures for the other partners were: 44.8% for Nicaragua, 39.2% for Guatemala, 33.3% for Honduras and 13.9% for Costa Rica. Therefore, CA has become the most important market for exports of countries belonging to the CA process of integration<sup>66</sup>.
- III) After US and CA countries, the EU is the next trade partner of CA countries. Nevertheless, trade relations suffered severe erosion throughout the period 1995-2002, which has particularly affected CA exports to the EU. The decreasing values on the OIT indicator and, moreover, on the ET indicator (Tables 3.9 to 3.13), shows the loss of weight of the EU in the external trade of CA countries.

The situation invites us to conclude with *three obvious considerations*: CA countries should reinforce their process of integration, they could not exclude the USA from their external agenda, and they must ask the EU for more effective trade agreements, in particular in the field of exports promotion (i.e., SGP and less agricultural protection)<sup>67</sup>.

To finish, some data of each CA country can be analyzed, in order to have a better reference of the lack of success in EU cooperation with CA countries in the specific and important field of external trade. Summarizing:

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<sup>66</sup> Nevertheless, in terms of total trade (imports and exports) the USA is the most important area for CA exchanges, followed by the CA region (intra-regional trade). See OIT index, Tables 3.4 to 3.8: throughout 1995-2002, the average growth of intra-regional trade was 83% for Honduras and Nicaragua, 13% Guatemala, 17% El Salvador and 21% Costa Rica (only country with increasing exports to the USA).

<sup>67</sup> Agricultural prices (particularly coffee) seem to have been determinant aspects to explain the loss of incomes coming from CA exports.

- Costa Rican exports to the EU were 30.7% of its world exports in 1995 and 17.7% in 2002.
- El Salvador's exports to the EU were 30.9% of its total world exports in 1995 and 6.3% in 2002.
- Guatemala's exports to the EU were 15.8% of its total world exports in 1995 and 5.3% in 2002.
- Honduras' exports to the EU were 27.4% of its total world exports in 1995 and 16% in 2002.
- Nicaragua's exports to the EU were 31.8% of its total world exports in 1995 and 10.5% in 2002.

These empirical results depend very much on two facts. Firstly, the period selected: 1995 was a good year for CA exports to the EU and 2002 was the worst recent year in trade terms<sup>68</sup>. Secondly, the poor performance of EU trade relations with CA has been affected (in relative terms) by the good performance (in percentage) of the intra-regional trade in CA and also by the increasing trade of CA countries with the USA.

Nevertheless, intra-regional trade in CA would continue increasing for the coming years, not only in quantity, but also in quality. CA countries will benefit from economic mechanisms of integration if they improve intra-industry exchanges and open their economic spaces to free movement of factors. It will also allow them to face the existing free trade agreements from a better position, in particular the CAFTA. To this respect, the governments of the region need to reach an agreement on the common commercial policy of CA customs union, as a way to avoid bilateralism in trade relations with the USA. If they do not act under common criteria with respect to their bilateral trade with the USA, the future of the integration process in CA could be under serious danger<sup>69</sup>.

Finally, I wish *to remark one more question*. Trade is not the only way for EU cooperation with CA countries, but without a good trade performance it is difficult to improve others mechanisms of cooperation. The good news of this data refers to intra-regional trade in CA. That favorable evolution is a necessary step to deeper integration in the region.

One of the more interesting European experiences in integration can be summarized as follows: promoting exchange and economic activities is a way to facilitate integration. Final objectives of integration could be better reached by improving trade and economic relations between partners. How to adapt these experiences to CA real situation could be a preliminary target for European programs of cooperation in the region. Then, a final conclusion seems to be obvious<sup>70</sup>: Strengthening integration must be a target for CA countries and for the EU cooperation with the region.

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<sup>68</sup> SIECA (2005) considers 2002 (last available year) as a bad year for the external trade of CA (except for exports to the USA). After 2002 the exports of the region began a new period of growth (including exports to the EU). To avoid the analytical effect of taking the reference of 2002, I have calculated data for the whole period of 1995-2002. They show the tendency throughout those years, confirming the lack of growth in CA exports to the EU and the negative data at the end of the period.

<sup>69</sup> Rueda (2005).

<sup>70</sup> However, Sir Arthur Conan Doyle wrote: "There is nothing as deceiving as an obvious fact".

## 2.10. Notes on Latin American performance in development and external trade

In order to emphasize the perception that there exists a lack of efficiency in the EU development aid to Latin American countries I have selected several economic and social indicators and studied their evolution through last years. This is a way to conclude the study on EU-CA relations, going back to the wider and more general scenario of the EU-Latin American relations. It is also a form to remember that particular relations between the EU and CA should be considered in the context of EU-Latin American relations. Unfortunately, there has been not enough success in the main objectives of the EU-Latin American strategy through recent years.

This partial evaluation of EU-Latin American relations is based on *two elements*: a) basic statistical data on the economic and social situation of Latin America; b) selected data concerning Latin American exports to the EU. Obviously, selected references do not allow final conclusions on the role of EU cooperation policies in Latin America. Moreover, many other aspects should be considered to complete the study on the development in Latin America. Nevertheless, the empirical information provided shows a general picture of the situation. That “real o factual” situation can be compared to the “formal or virtual” aims expressed through institutional declarations concerning the present and the future of EU-Latin American relations<sup>71</sup>.

To begin, more than 200 million people in Latin America are under the poverty line, and near 90 million are under the extreme poverty line. Table 2.1 shows that poverty affected 44% of the population in 2002 (48.3% in 1990) and extreme poverty affected 19.4% of the population in 2002 (22.5% in 1990). There has been a timid improvement of the situation in recent years, but it cannot be considered satisfactory<sup>72</sup>.

The macroeconomic situation of Latin American countries has also improved in general terms, but here again the achievements are certainly ambiguous. On one hand, inflation rates have drop (on average) from 27.1% in 1995 to 8.6% in 2004, which is excellent news. Inflation and privatizations have aided to control public deficits, but those measures have not been accompanied by fiscal reforms and enough structural policies. Then, there is a visible lack of social policies in Latin America, as well as considerable inequality in the distribution of the fruits of economic development.

On the other hand, the macroeconomic situation of Latin American countries strongly depends on their external sector, where two factors have played a decisive negative role: the external debt and the exports performance. External debt is a heavy burden for each person and nation in the region. Table 2.1 shows the important rise in Disbursed Gross External Debt for the whole region between 1990 and 2003. To this extent, I have calculated two classic indicators concerning external debt: its importance in terms of GDP and its importance in terms of exports (both are registered at the button of Table 2.1). External debt of Latin America was 43.2% of the aggregated GDP in 2003 and 313% of the value of the total export of the region. It is not easy to talk about development without seeking solutions to this dramatic problem.

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<sup>71</sup> Taking into account the progress (or the paralysis) of the different areas of integration in LA, a new analysis on the situation of those areas will be needed before the next EU-LA Summit (Peru, 2008).

<sup>72</sup> Human Development Index (UNDP) rose from 0.713 to 0.767 between 1990 and 2003.

Moreover, international trade has not decisively contributed to the economic recovery of Latin American countries. External trade has certainly risen, but export participation in GDP was just 13.8 in 2003 and 15% in 1990. Exports have not sufficiently risen throughout previous years in terms of values and in terms of quality. In fact, primary products still represent a decisive part of Latin American exports<sup>73</sup>. To this extent, it is indicative to look at the negative effects on terms of trade calculated by ECLAC-CEPAL (see Table 2.1).

Briefly, GDP growth has been too slow, and even negative, in many of the years in the period 1990-2003. As a result, per capita GDP has dropped throughout the period, although it experienced a timid recovery after 2002. Per capita GDP was \$3,267 in 2003 and \$2,637 in 1990. Low GDP growth has contributed to maintain a high level of unemployment in the region. Figures would be even higher taking into account unregistered unemployment and emigration. Regardless, registered unemployment rates have increased in many of the economic areas of integration in Latin America.

Finally, it is interesting to analyze what kind of contribution the EU has paid to solve the problems of Latin American countries. Looking into official EU reports it is easy to find figures on the importance of official assistance to development and new programs of cooperation, as was previously explained. It is also possible to find data on EU direct investments in Latin America, which has obviously risen in the last years, particularly in Mercosur<sup>74</sup>.

What are not always easy to find are statistics of external trade informing on the relative importance of Latin American export to the EU compared with total world exports of Latin America. Information of the European share in Latin American exports could be considered as a direct way to analyze whether or not trade cooperation policies of the EU have been useful to Latin America. On this bases, I have designed Table 2.2<sup>75</sup>.

Table 2.2 reports on the relative weight of Latin American export to the EU throughout the period 1980-2002<sup>76</sup>. The *conclusion is simple*: The EU has lost weight as a market of destination of Latin American exports. If the EU absorbed around one third of the total world exports of Latin American countries at the begging of the 80's, the figure has been reduced into half at the begging of the XXI Century. In the most recent period, the dynamic of world trade does not seem to have been very "kind" with EU-Latin American exchanges.

There exist several explanations for this behavior: the rise in intra-regional trade in both areas (Latin America and the EU), and the increasing weight of other countries in world trade (such as the USA or China and countries of the Pacific rim). As a result of that, it seems to be clear that real facts do not corroborate official declarations on the opportunities to improve EU-Latin American relations, particularly in the field of

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<sup>73</sup> Exports of manufactures were 55.7% in 2003 (33.1% in 1990).

<sup>74</sup> EU (2004).

<sup>75</sup> That is the idea of the "constant market share" analyzes. I have selected data from CEPAL (2005a).

<sup>76</sup> I have selected 2002 (last available reference for homogeneous data) however it was a bad year for LA external trade and for world trade. Looking carefully the yearly values of the whole period 1980-2002, conclusions do not differ too much, which confirms in a dynamical view the general trends registered in the selected data of Table 2.1.



external trade<sup>77</sup>. In addition, the EU could not elude its responsibility on that situation, taking into account that EU commercial relations belong to the sphere of “common European policies”. The existence of a central power of decision in the EU institutions with respect to commercial policy issues invites us to look into the real efficiency of the main common decision adopted with regard to Latin American in the scopes of trade agreements, General System of Preferences and Common Agricultural Policy. Facts seem to be clear: for every single Latin American country (with the exception of Ecuador) the percentage of exports inside its respective world exports have decreased between 1980 and 2002. Some data could be conclusive to this respect:

- Argentine exports to the EU were 31% of its world exports in 1980 and 20% in 2002.
- Bolivia exports to the EU were 23% of its world exports in 1980 and 7% in 2002.
- Brazil exports to the EU were 32% of its world exports in 1980 and 25% in 2002.
- Chile exports to the EU were 41% of its world exports in 1980 and 24% in 2002.
- Colombia exports to the EU were 42% of its world exports in 1980 and 13% in 2002.
- Ecuador exports to the EU were 8% of its world exports in 1980 and 15% in 2002.
- Mexico exports to the EU were 16% of its world exports in 1980 and 3% in 2002.
- Paraguay exports to the EU were 30% of its world exports in 1980 and 9% in 2002.
- Peru exports to the EU were 22% of its world exports in 1980 and 25% in 2002.
- Uruguay exports to the EU were 32% of its world exports in 1980 and 23% in 2002.
- Venezuela exports to the EU were 19% of its world exports in 1980 and 7% in 2002.
- Costa Rica exports to the EU were 28% of its world exports in 1980 and 17% in 2002.
- El Salvador exports to the EU were 15% of its world exports in 1980 and 6% in 2002.
- Guatemala exports to the EU were 17% of its world exports in 1980 and 5% in 2002.
- Honduras exports to the EU were 25% of its world exports in 1980 and 16% in 2002.
- Nicaragua exports to the EU were 33% of its world exports in 1980 and 10% in 2002.

I have ranked Central American Countries in the last places to have them together and reach a general overview of this area of integration, which includes some of the poorest countries in Latin America. It is interesting to corroborate that CA countries suffer the same “problem” as the rest of Latin American countries: the existence of an important decline, in relative terms, of Europe as a market of destination for their total exports.

Obviously, it is impossible to conclude the analysis of such a wide matter (EU-Latin American relations) with such a simple observation (Latin American exports have risen more to other markets of destination than to the EU). There are several mechanisms of cooperation that have been successfully implemented in recent years. There will exist many other possibilities of bilateral cooperation. Therefore, there are not enough reasons to be completely optimistic and nor absolutely pessimistic about the situation and perspectives of EU-Latin American relations. But one observation seems to be clear: relations between the EU and Latin America would be much more solid if its fundamentals were strong bilateral ties instead of mutual declarations of goals.

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<sup>77</sup> Commercial Policy and Agricultural Policy have been the two main Common European Policies until date: Nieto (2001). The EU institutions, representing all Member States, adopt decisions affecting the rest of the world by common decision methods (based on majority vote system, in the case of trade policy).

**TABLE 2.1 MACROECONOMIC AND SOCIAL INDICATORS OF LATIN AMERICA**

<u>INDICATORS / YEARS</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total population of LA (Thousands)	432377	511683	519594	527495	535377	543239
Total population of the Caribbean (Thous.)	33909	37673	38017	38357	38692	39025
Economically active population (Thous.)	167485	191512	217241	na	na	243512
Urban unemployment rate	7.3	8.7	10.2	9.9	10.8	10.7
Illiteracy in the population over 15 years	14.9	na	11.1	na	na	9.5
Poverty line in LA (Caribbean not included)	48.3	na	na	na	44.0	na
Extreme poverty line in LA (Carib. not incl.)	22.5	na	na	na	19.4	na
Gross Domestic Product (\$ mill., current p.)	1128412	1695409	1996552	1936651	1710287	1755291
GDP per capita (\$ at current market prices)	2637.4	3608.1	3919.2	3743.1	3276.7	3267.3
GDP growth (at constant market prices)	-0.6	1.1	3.7	0.4	-0.6	2
GDP per capita growth (at constant m. p.)	-2.9	-0.6	2.1	-1.1	-2.1	0.5
Exports (\$ mill., as contribution to GDP)	170060	268069	410128	393725	223115	241864
Exports as a percentage of GDP	15.0	15.8	20.5	20.3	13.0	13.8
Exports Growth (Quantum, goods & serv.)	7.2	12.7	10.6	2.4	1.5	4.4
Imports Growth (Quantum, goods & serv.)	11.9	5.3	12	0.2	-7.4	0.2
Exports of primary products / Total Exports	66.9	50.1	41.8	40.9	41.2	44.3
Exports of manufactures / Total Exports	33.1	49.9	58.2	59.1	58.8	55.7
Andean C. Exports of manuf / Total Exports	13.9	18.6	16.3	19.4	19.7	18.5
Mercosur Exports of manuf / Total Exports	44.5	46.5	49.2	46.8	45.5	43.9
Central A. Exports of manuf / Total Exports	23.5	26.9	47.5	48.6	49.8	52.3
Rest of LA Exports of manuf / Total Exports	38.8	68.3	36.4	43.7	35.6	35.8
Effect of the Terms of Trade (\$ millions)	na	na	7702	-10853	-13090	-10328
Net Direct Investments (LA, \$ mill.)	6886	26311	68694	66259	40341	29443
Interest paid and outstanding (LA, \$ mill.)	39863	45174	58006	58265	50508	49674
Profits paid (LA, \$ mill.)	7466	15005	23661	20243	17231	20976
Disbursed Gross External Debt (\$ mill.)	46725	622099	745188	728956	727346	757997
External Debt as a percentage of GDP	4.1	36.7	37.3	37.6	42.5	43.2
External Debt as a percentage of Exports	27	232	181	185	326	313

Source: CEPAL

**Table 22****Exports of Latin America to the EU (\$ thousands, % of Total World Exports of each country)**

Destino	1980		1985		1990		1995		2000		2002	
	Valor	%	Valor	%	Valor	%	Valor	%	Valor	%	Valor	%
Argentina	2489135,0	31,0	2066968,0	24,6	3810879,0	30,9	4483480,0	21,4	4659167,0	17,7	5159894,0	20,1
Bolivia	242041,0	23,4	140660,0	20,9	267892,0	29,0	306264,0	25,9	252450,0	17,1	96925,0	7,1
Brasil	6475085,0	32,3	7286581,0	28,4	10164148,0	32,4	12911786,0	27,8	14782509,0	26,8	15086791,0	25,0
Chile	1938899,0	41,6	1365526,0	36,3	3264724,0	38,3	4241411,0	26,7	4509504,0	24,8	4238393,0	24,3
Colombia	1651640,0	41,9	1388929,0	39,4	1848162,0	27,3	2517893,0	24,7	1773498,0	13,5	1625525,0	13,7
Ecuador	203820,0	8,2	131614,0	4,5	275992,0	10,2	843381,0	19,3	610805,0	12,4	793831,0	15,8
México	2486235,0	16,0	4018737,0	17,6	3360798,0	12,8	3344736,0	4,2	5608992,0	3,4	5214918,0	3,3
Paraguay	95882,0	30,9	152277,0	50,1	304380,0	31,8	178083,0	19,4	118229,0	13,6	91093,0	9,0
Peru	784108,0	23,0	736862,0	25,5	1078908,0	32,6	1660498,0	30,5	1464174,0	21,3	1928727,0	25,8
Uruguay	338686,0	32,0	193512,0	22,7	428252,0	25,1	438199,0	20,8	371947,0	16,2	441304,0	23,7
Venezuela	3660406,0	19,0	3289015,0	20,5	2334687,0	13,6	1722288,0	9,1	1686818,0	5,5	1824767,0	7,8
Costa Rica	271120,0	28,0	251748,0	27,1	426926,0	31,4	830504,0	30,7	1182974,0	21,6	873401,0	17,6
El Salvador	113664,0	15,8	148779,0	24,4	148440,0	29,3	304261,0	30,9	151897,0	11,3	77918,0	6,3
Guatemala	408244,0	27,7	169133,0	17,1	157725,0	13,6	303498,0	15,8	289600,0	10,7	118481,0	5,3
Honduras	205845,0	25,3	210136,0	30,0	155907,0	28,1	334617,0	27,4	174401,0	13,2	159975,0	16,6
Nicaragua	144272,0	33,1	98244,0	35,8	113220,0	33,3	161915,0	31,8	128255,0	20,4	63481,0	10,0

Source: *CEPAL*

### **3. Final Remarks and conclusions**

Relations between the EU and Latin America try to enter in a new era. They have an old history, which has been reinforced through the Group of Rio Dialogue (launched in 1999 and recently concreted in the EU-Latin America Summit of Vienna in 2006). New opportunities and challenges are ahead in the coming years. On one hand, European aid to Latin American (and Central American) countries and the new programs of cooperation have significantly increased in recent years. On the other hand, conclusions are not so satisfactory if the analysis is made from a Latin American point of view.

In fact, throughout the last two decades, the EU has lost weight as a market of destination for world export of Latin American countries. If the EU had absorbed around one third of the total world exports of Latin America at the beginning of the 80's, the figure would have been reduced into a half in the early part of the XXI Century. There exist several explicatory factors to this behavior: the rise in intra-regional trade in both areas (Latin America and the EU) and the increasing weight of other countries in the world trade (i.e. the USA or China and several countries of the Pacific rim). However, EU commercial relations belong to the sphere of Common European Policies, which invites us to inquire into the real efficiency of the main EU decision adopted in regards to Latin America, in the scope of trade agreements, General System of Preferences, and Common Agricultural Policy. These general remarks are particularly valid for Central American countries and certainly for the relations between the EU and Central America too.

Within the general context of Latin America and its relations with the EU, this Paper has been dedicated to the study of Central American economic integration. The regional process of integration was reinforced after the internal conflicts and disputes existing during the 70's and 80's. The macroeconomic situation and intra-regional trade in Central America have improved, though the region remains in the group of the less developed nations of Latin America.

Three main alternatives for the future of Central America have been considered here: international cooperation (as is the case of the Plan Puebla Panamá), free trade agreements (CAFTA), and international economic integration (customs union and deeper integration). Economic integration appears to be the best alternative for improving the standard of living of the population and the insertion of Central American countries in the world economy. Besides, it is compatible with other alternatives, and with the improvement of relations with the EU.

Moreover, economic integration could aid in facing two problems originated by the CAFTA from a better position. The first problem concerns of the bilateral method of negotiation applied to each Central American country by the US government, which jeopardizes the possibility of establishing a Common External Tariff for the Central American customs union. Instead of remaining in the bilateral tariff reduction signed with the USA, Central America could move into a common tariffs system based on a single framework and uniformly applied to the rest of the world. The second problem refers to the decline of fiscal revenues due to tariff reductions. This could be faced from

a better position if Central American countries agree on the implementation of compensatory mechanisms, including the creation of a common budget as a specific mechanism to reinforce integration and development in the region.

A common budget for Central America would improve the economic gains of the regional process of integration, would contribute to the political stability of the nations, would improve the international position of Central American countries, and could be used to implement programs in the field of cohesion (mainly social and infrastructure projects). The simplest proposal is the following: a common budget of maximum value around 0.5% of the aggregate GDP of Central American nations, with revenues coming from two main sources (customs union earnings and direct contributions according basically to national GDPs), and final expenditures specifically dedicated to cover the action of one common structural fund operating in the region. In this case, the EU experience in economic integration (common budget, structural funds, customs union) could be certainly useful in the region.

There are several barriers to overcome on the way to deeper economic integration in Central America. Some of them concern to the situation of underdevelopment in the region, which adopts the shape of poverty, inequality, lack of fiscal structures and lack of industrialization. Others derive from the weakness of the political consensus to enhance economic integration between countries. Overcoming integration obstacles could be a decisive contribution to improving the insertion of the region in the world economy, which affects many issues, such as the relations with the USA and the EU, the problems of emigration, and the alternatives for seeking solutions to the weak international financial situation of Central American nations.

At the moment, empirical data confirm the progress of Central American intra-regional trade, but it does not corroborate the same progress in their trade with the rest of the world. This aspect would probably indicate decisive success in terms of development and integration in the region. Statistical data also confirms the poor performance of trade relations between the EU and Central America, versus the rise in economic exchanges between Central America and the USA, as well as between Central American nations. To this extent, Central American region should ask for better cooperation and more effective openness of the EU markets.

Finally, a central conclusion emerges as an obvious fact: Strengthening integration must be a basic target for the present and the future of Central American countries. To this respect, the European experiences in integration and financial structural funds could be useful if it could be adapted to the region and adopted by its own common institutions of integration. This conclusion can also be extended to other areas of integration in Latin America and can be considered as a central reference for a better framework of relations between the EU and Latin American countries.

**Annex:**  
**Tables 3.1 to 3.13 (Indicators of Central American External Trade)**

**Table 3.1 - CA Gross Domestic Product  
 GDP 1995-2002 (\$ Millions)**

	1995	1996	1997	1998	1999	2000	2001	2002	1995-2002
Guatemala	14.822,70	15.674,85	17.790,08	19.395,46	18.318,51	19.288,93	20.979,60	23.303,98	57.22%
El Salvador	9.498,16	10.315,54	11.134,62	12.008,42	12.464,66	13.134,15	13.803,73	14.283,85	50.39%
Honduras	3.168,92	4.034,04	4.663,25	5.202,22	5.372,54	5.956,10	6.327,94	6.509,56	105.42%
Nicaragua	3.191,30	3.320,34	3.382,76	3.573,20	3.742,70	3.938,07	4.102,40	4.026,04	26.16%
Costa Rica	11.717,14	11.846,65	12.829,53	14.102,85	15.797,12	15.948,40	16.404,43	16.839,62	43.72%
<b>Total CA</b>	<b>42.398,21</b>	<b>45.191,42</b>	<b>49.800,24</b>	<b>54.282,15</b>	<b>55.695,53</b>	<b>58.265,64</b>	<b>61.618,10</b>	<b>64.963,05</b>	<b>53.22%</b>

Source: Official data from national governments and SIECA

**Table 3.2 - CA Exports  
 Export 1995-2002 (\$ Millions)**

	1995	1996	1997	1998	1999	2000	2001	2002	1995-2002
Guatemala	1.935,52	2.030,73	2.344,08	2.581,68	2.458,22	2.699,36	2.412,53	2.227,46	15.08%
El Salvador	985,13	1.023,25	1.352,43	1.256,22	1.163,51	1.341,35	1.213,49	1.233,83	25.25%
Honduras	654,94	1.313,15	1.445,52	1.532,78	1.159,85	954,28	1.288,34	1.340,21	104.63%
Nicaragua	499,98	653,25	657,60	520,66	478,32	606,61	502,36	603,02	20.61%
Costa Rica	2.701,76	2.779,79	3.887,40	5.145,78	6.276,75	5.482,91	4.711,02	4.942,87	82.95%
<b>Total CA</b>	<b>6.777,33</b>	<b>7.800,18</b>	<b>9.687,04</b>	<b>11.037,12</b>	<b>11.536,64</b>	<b>11.084,51</b>	<b>10.127,74</b>	<b>10.347,38</b>	<b>52.68%</b>

Source: Official data from national governments and SIECA

**Table 3.3 - CA Imports  
 Imports 1995-2002 (\$ Millions)**

	1995	1996	1997	1998	1999	2000	2001	2002	1995-2002
Guatemala	3.292,40	3.146,21	3.851,93	4.650,85	4.554,32	4.882,36	5.597,55	6.073,97	84.48%
El Salvador	2.627,37	2.669,74	2.961,27	3.107,83	3.127,81	3.794,86	3.865,26	3.906,83	48.70%
Honduras	1.727,52	1.839,95	2.147,38	2.533,97	2.673,69	2.481,95	2.690,03	3.033,02	75.57%
Nicaragua	1.009,21	1.076,15	1.469,75	1.532,12	1.723,06	1.720,58	1.773,37	1.802,25	78.58%
Costa Rica	3.185,01	3.546,17	4.482,64	6.203,64	5.969,20	6.011,45	6.254,17	6.869,82	115.69%
<b>Total CA</b>	<b>11.841,52</b>	<b>12.278,22</b>	<b>14.912,97</b>	<b>18.028,40</b>	<b>18.048,08</b>	<b>18.891,20</b>	<b>20.180,39</b>	<b>21.685,89</b>	<b>83.13%</b>

Source: Official data from national governments and SIECA

**Table 3.4 - COSTA RICA****Openness to International Trade by Main Economic Areas**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	5.00%	7.82%	21.48%	10.28%	5.37%	50.24%
1996	5.35%	9.48%	22.48%	10.42%	5.67%	53.40%
1997	5.83%	9.88%	31.15%	10.35%	8.04%	65.24%
1998	5.92%	8.96%	39.33%	11.84%	14.41%	80.48%
1999	5.55%	9.01%	41.26%	12.45%	9.25%	77.52%
2000	5.85%	10.06%	37.17%	11.53%	7.46%	72.07%
2001	5.90%	9.64%	34.14%	9.08%	8.08%	66.84%
2002	6.05%	10.33%	36.03%	9.75%	7.98%	70.15%
Growth 95-02	21.10%	32.05%	67.73%	-5.19%	48.69%	39.62%

Source: CEPAL, SIECA, Banco Central de Costa Rica

**Table 3.5 - EL SALVADOR****Openness to International Trade by Main Economic Areas. %**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	9.33%	4.54%	14.04%	5.78%	4.35%	38.03%
1996	9.32%	5.72%	12.25%	5.25%	3.27%	35.80%
1997	10.35%	5.63%	13.32%	5.95%	3.49%	38.74%
1998	10.12%	5.56%	12.21%	4.33%	4.11%	36.34%
1999	10.14%	5.79%	11.39%	3.32%	3.78%	34.43%
2000	11.89%	6.13%	12.52%	3.71%	4.85%	39.11%
2001	11.18%	6.62%	11.24%	3.01%	4.73%	36.79%
2002	10.93%	7.15%	10.94%	2.70%	4.27%	35.99%
Growth 95-02	17.14%	57.38%	-22.09%	-53.26%	-1.66%	-5.38%

Sources: CEPAL, Banco Central de El Salvador, Secretaría Ejecutiva del Consejo Monetario Centroamericano

**Table 3.6 - GUATEMALA****Openness to International Trade by Main Economic Areas. %**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	5.78%	6.14%	14.06%	4.37%	4.91%	35.27%
1996	5.24%	6.14%	13.76%	3.88%	4.01%	33.03%
1997	6.15%	6.47%	13.80%	3.79%	4.62%	34.83%
1998	6.99%	6.95%	14.46%	3.84%	5.04%	37.29%
1999	6.96%	7.45%	14.94%	3.81%	5.12%	38.28%
2000	7.41%	7.81%	15.11%	3.62%	5.36%	39.31%
2001	8.75%	7.21%	12.46%	2.99%	6.76%	38.18%
2002	6.56%	7.01%	12.33%	3.30%	6.41%	35.62%
Growth 95-02	13.46%	14.12%	-12.30%	-24.40%	30.58%	1.00%

Sources: CEPAL, Banco de Guatemala, Secretaría Ejecutiva del Consejo Monetario Centroamericano

**Table 3.7 - HONDURAS**  
**Openness to International Trade by Main Economic Areas**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	8.86%	6.97%	34.20%	15.45%	8.19%	75.18%
1996	10.56%	6.35%	40.57%	11.74%	8.13%	78.16%
1997	10.73%	6.53%	46.33%	7.68%	4.99%	77.05%
1998	14.12%	7.14%	43.28%	7.73%	5.12%	78.17%
1999	13.93%	9.09%	36.22%	6.02%	5.45%	71.35%
2000	12.58%	9.06%	27.30%	4.95%	3.50%	57.69%
2001	14.18%	12.28%	22.44%	5.41%	8.24%	62.87%
2002	16.27%	10.94%	25.53%	5.63%	8.51%	67.18%
Growth 95-02	83.57%	57.14%	-25.35%	-63.56%	3.97%	-10.64%

Sources: CEPAL, Banco Central de Honduras

**Table 3.8 - NICARAGUA**  
**Openness to International Trade by Main Economic Areas**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	9.75%	8.47%	16.10%	8.26%	4.71%	47.29%
1996	10.88%	6.36%	19.77%	9.71%	5.37%	52.08%
1997	13.38%	10.01%	25.00%	9.05%	5.44%	62.89%
1998	15.13%	10.71%	18.07%	7.08%	6.46%	57.45%
1999	17.75%	9.80%	19.39%	5.38%	6.50%	58.82%
2000	16.63%	13.28%	16.71%	5.58%	6.90%	59.09%
2001	15.58%	12.15%	15.16%	4.64%	7.95%	55.47%
2002	17.85%	12.36%	16.57%	4.73%	8.24%	59.74%
Growth 95-02	82.98%	45.90%	2.89%	-42.73%	75.04%	26.33%

Sources: CEPAL, Banco Central de Nicaragua

**Table 3.9 - COSTA RICA**  
**Export Trends to Main Economic Areas**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	3.27%	1.51%	10.13%	7.76%	2.26%	25.24%
1996	3.24%	2.17%	8.67%	7.24%	2.14%	23.46%
1997	3.50%	2.70%	14.72%	6.80%	2.58%	30.30%
1998	3.70%	2.68%	14.86%	7.63%	7.62%	36.49%
1999	3.65%	2.65%	20.62%	8.90%	3.92%	39.73%
2000	3.90%	2.47%	17.87%	7.43%	2.71%	34.38%
2001	4.03%	2.51%	14.25%	5.08%	2.85%	28.72%
2002	4.08%	2.74%	14.86%	5.20%	2.48%	29.35%
1995-2002	24.79%	81.62%	46.65%	-33.00%	9.76%	16.30%

Sources: CEPAL, SIECA, Banco Central de Costa Rica



**Table 3.10 - EL SALVADOR****Export Trends to Main Economic Areas**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	4.38%	0.53%	1.82%	3.20%	0.44%	10.37%
1996	4.41%	0.58%	1.90%	2.77%	0.25%	9.92%
1997	5.17%	0.66%	2.32%	3.59%	0.40%	12.15%
1998	5.13%	0.64%	2.24%	1.92%	0.53%	10.46%
1999	5.03%	0.64%	1.98%	1.33%	0.35%	9.33%
2000	5.64%	0.54%	2.46%	1.16%	0.42%	10.21%
2001	5.23%	0.77%	1.65%	0.58%	0.56%	8.79%
2002	5.18%	0.82%	1.75%	0.55%	0.34%	8.64%
1995-2002	18.22%	54.91%	-3.67%	-82.94%	-21.98%	-16.70%

Sources: CEPAL, Banco Central El Salvador, Secretaría Ejecutiva del Consejo Monetario Centroamericano

**Table 3.11 - GUATEMALA****Export Trends to Main Economic Areas**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	3.86%	1.40%	4.13%	2.07%	1.74%	13.21%
1996	3.69%	1.53%	4.76%	1.73%	1.24%	12.96%
1997	3.84%	1.44%	4.73%	1.73%	1.44%	13.18%
1998	3.86%	1.71%	4.34%	1.62%	1.78%	13.31%
1999	4.31%	1.47%	4.60%	1.59%	1.45%	13.42%
2000	4.23%	1.35%	5.05%	1.50%	1.86%	13.99%
2001	5.05%	0.89%	3.07%	0.72%	1.76%	11.50%
2002	3.75%	0.95%	2.90%	0.51%	1.45%	9.56%
1995-2002	-2.90%	-31.84%	-29.94%	-75.46%	-16.75%	-27.64%

Sources: CEPAL, Banco de Guatemala, Secretaría Ejecutiva del Consejo Monetario Centroamericano

**Table 3.12 - HONDURAS****Export Trends to Main Economic Areas**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	0.94%	0.43%	7.13%	6.09%	0.91%	16.74%
1996	3.44%	0.85%	17.44%	8.19%	1.81%	32.55%
1997	3.42%	0.46%	20.50%	5.24%	0.59%	31.00%
1998	5.87%	0.65%	17.27%	4.37%	0.50%	29.46%
1999	5.56%	0.46%	12.20%	2.45%	0.28%	21.59%
2000	4.14%	0.48%	7.97%	2.84%	0.30%	16.02%
2001	6.22%	1.07%	7.22%	3.75%	1.78%	20.36%
2002	6.86%	1.64%	6.30%	3.30%	2.19%	20.59%
1995-2002	628.81%	282.41%	-11.65%	-45.89%	140.42%	23.00%

Sources: CEPAL, Banco Central de Honduras

**Table 3.13 - NICARAGUA**  
**Export Trends to Main Economic Areas**

Years	CA	Other LA countries	USA	EU	Other countries	Total
1995	2.60%	0.82%	6.56%	5.07%	0.61%	15.67%
1996	3.05%	0.95%	8.77%	6.36%	0.55%	19.67%
1997	3.59%	0.89%	8.76%	5.37%	0.84%	19.44%
1998	3.43%	0.86%	5.00%	4.18%	1.10%	14.57%
1999	3.88%	0.77%	4.12%	3.12%	0.90%	12.78%
2000	4.17%	0.92%	6.09%	3.26%	0.98%	15.40%
2001	4.24%	1.11%	3.52%	2.05%	1.32%	12.25%
2002	6.71%	1.53%	4.23%	1.58%	0.93%	14.98%
1995-2002	157.89%	86.10%	-35.54%	-68.86%	53.05%	-4.40%

Sources: CEPAL, Banco Central de Nicaragua

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